



Budget Tidbits... just the facts

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Budget Brief #9: Tobacco Securitization (3/8/05)

- Democrats revealed they are considering selling the state's future tobacco settlement revenues to balance the state budget, a process known as securitization. This would be the second securitization go-round for Democrats. Let's look at the idea's merits:

A. The 2002 Securitization Experience

- The 2002 Democrat Legislature "balanced" the budget by selling nearly 30% of the state's future tobacco revenues for \$450 million in cash – which it promptly spent.

The results were three-fold:

- Nearly \$1.5 Billion of Future Money Gone – To generate the \$450 million in cash, the state had to sell almost \$1.5 billion of tobacco revenues it was going to receive over the next thirty years. A nearly \$4.5 billion asset was promptly reduced to \$3 billion.
- Dug Deeper Hole for Next Budget – Akin to deficit spending, the 2001-03 budget was propped up with a one-time influx of \$450 million. When those funds evaporated, the Legislature was faced with a worse budget problem in 2003-05.
- Less Money for Health Care Needs – Tobacco Settlement revenues go to the Health Services Account, which funds Medicaid for Children, the Basic Health Plan for low-income adults, and county public health efforts. *Securitization took away over \$100 million for these programs in every budget written for the next thirty years.*

B. Further Securitization in 2005?

- Despite this, Democrats are considering securitizing again. The Senate leader said "it is a responsible tool to use" and budget writers said the idea is definitely on the table.¹
 - Plans center on generating \$300 million (although more can't be ruled out) which would require selling roughly \$800 million of revenue currently dedicated to health care expenses for the next thirty years. *Is that responsible?*
- The Seattle Times recently bemoaned such plans, calling securitization "financial witchcraft" and "a shiny label on an old and shabby practice" called deficit spending.²

Bottom Line

Despite a fancy name, tobacco securitization is little more than deficit spending, akin to taking out a second mortgage on your home to go on vacation. Don't taxpayers deserve better?

1. Seattle Post-Intelligencer, March 3, 2005 – Chris McGann, "A Plan to use tobacco funds for budget gap".
2. Seattle Times, March 6, 2005 – Editorial: "Financial Witchcraft".